HomeChoice International PLC summarised group financial statements

for the year ended 31 December 2016 and cash dividend declaration

HomeChoice International PLC

HiL PLC

Group highlights

Retail sales up **25.1%** to **R1.5 billion**

Customer base up **10%**

Revenue up **19.3%** to **R2.7 billion**

Loan disbursements up **10.4%** to **R1.3 billion**

40% increase in digital Retail sales

R846 million digital credit extended, **28%** of total group credit

EBITDA up **11.0%** to **R701.4 million**

Commentary

Overview

HomeChoice International PLC (HIL) is an investment holding company incorporated in Malta and listed in the General Retailers sector on the JSE Limited. Through its operating subsidiaries, HomeChoice (Retail) and FinChoice (Financial Services), the group sells innovative homewares, apparel, personal technology, loans and insurance products to the rapidly expanding mass middle-income market in southern Africa.

HomeChoice is the largest home-shopping retailer in southern Africa and offers products through digital channels, call centres, sales agent networks and a showroom. The group's omni-channel Retail model and digital Financial Services business provide a strong platform for achieving its ambitions of becoming a digital pan-African retailer and financial services provider.

Trading environment

Despite the challenging economic environment in South Africa the group has delivered good growth in revenue and profits. The group's middle income customers have been under pressure from high food inflation and transport costs, a weak job market and constrained access to credit.

The affordability assessment regulations introduced in September 2015 by the National Credit Regulator (NCR) have constrained the unsecured credit environment. The regulations have been complex to implement and required customer education as well as significant changes to business systems and processes, resulting in higher operating and compliance costs. The NCR reduced the maximum interest rates for credit agreements in May 2016, with a 5% reduction providing some relief to customers and increasing pressure on business to mitigate the negative impact on the bottom line.

Financial performance

The group delivered a strong trading and financial performance driven by the continual focus on our customer proposition and ensuring we steadily grow our customer base.

		31 Dec 2016	31 Dec 2015	% change
Group				
Revenue	(Rm)	**2 664.2**	2 232.9	19.3
Earnings before interest, tax and depreciation (EBITDA)	(Rm)	**701.4**	632.2	11.0
Operating profit	(Rm)	**648.2**	580.4	11.7
Operating profit margin	(%)	**24.3**	26.0	
Headline earnings per share (HEPS)	(cents)	**414.6**	389.1	6.6
Cash generated from operations	(Rm)	**277.0**	358.5	(22.7)
Retail				
Revenue	(Rm)	**2 082.7**	1 754.9	18.7
Retail sales	(Rm)	**1 497.6**	1 197.1	25.1
Gross profit margin	(%)	**49.3**	50.7	
EBITDA	(Rm)	**420.2**	377.2	11.3
Financial Services				
Loan disbursements	(Rm)	**1 249**	1 131	10.4
Revenue	(Rm)	**581.5**	477.9	21.6
EBITDA	(Rm)	**260.7**	233.4	11.7

Group revenue increased by 19.3% to R2 664.2 million, with stronger growth in the second half driven by good Retail sales and an improved performance in Financial Services loans disbursements.

Retail sales had a strong second half increasing by 29.8% to R910.0 million, resulting in a full-year sales increase of 25.1%. Customers responded positively to the strategic introduction of the Retail credit facility product at reduced interest rates. This new credit offer enabled customers to purchase similar product at a lower price or use the opportunity to purchase higher-value items while keeping the monthly instalment outlay constant.

The impact of the reduction in the prescribed maximum interest rate was evident in the second half, resulting in a slowdown in finance charges earned by the group. The credit facility product in Retail, which attracts a lower interest rate than the previous instalment credit product, further reduced finance income.

Full-year debtor costs were 20.3% up on the previous year, with a slight deterioration in the second half reflecting the challenging collections environment.

A strong focus on cost management across the group managed the increase in other trading expenses below revenue growth. The group had an increase in compliance costs due to affordability regulations and continued its investment in technology and people to support its growth.

Group EBITDA increased by 11.0% to R701.4 million as finance charges earned increased by 3.1% due to the lower interest rates charged. Operating profit increased by 11.7%, reflecting a more normalised depreciation charge compared to 2015.

Headline earnings for the year increased by 7.5% to R424.7 million, with HEPS up 6.6% to 414.6 cents due to increased interest paid on property borrowings.

Commentary (continued)

RETAIL PERFORMANCE

Retail sales increased by 25.1% to R1 497.6 million. The business delivered strong growth in its heritage textiles business with customers responding positively to the product innovation across the bedding range. Branded home appliances and electronic products were introduced to support the private label offering and favourable customer response drove good momentum in the hard goods product category.

Strong marketing offers and the continued use of television advertising increased the Retail customer base to 700 000, up 9.0% on 2015.

The introduction of the credit facility product (from the previous instalment credit product) attracts a lower interest rate and resulted in a marginal decrease in finance charges and initiation fees earned for the year. Fees from ancillary services, which now include insurance income, were up 42.4% delivering R93.4 million.

The gross profit margin declined to 49.3% from 50.7% in 2015. The change in mix of products, with an increased percentage from external brands, which typically earns a lower margin than private label brands, has been mitigated by good efficiencies and productivity gains achieved in the supply chain.

Retail EBITDA increased by 11.3% to R420.2 million with higher-than-anticipated debtor costs that increased by 23.9% on 2015. As the Retail business continues with its digital strategy, other trading expenses have shown good productivity efficiencies, up 11.2% on 2015. Operating profit has increased by 13.2% to R370.7 million, improved by a more normalised depreciation and amortisation charge.

Digital is our fastest-growing sales channel, up 40.3% for the year and now represents 12% sales contribution. Mobi is our customer's preferred shopping channel, with 56% contribution to total digital sales. The business continues to invest in its digital platforms and introduced products which are only available online to positive customer response.

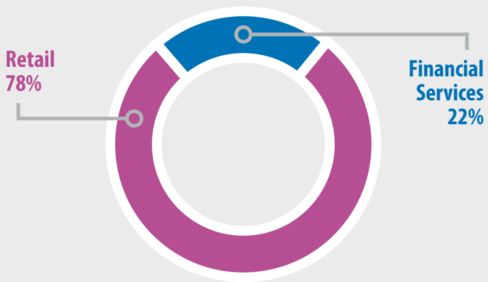
Sales to customers in neighbouring African countries represent 10% of business with good demand from customers in Namibia and Botswana. Over 17 000 new foreign customers were acquired, which is a 14% growth on 2015.

The bricks and mortar Retail showroom concept has traded well, and customers have responded positively to the convenient "call and collect" delivery option offered by this channel. This proven concept will be rolled out as we find suitable sites.

REVENUE CONTRIBUTION

+19%

to R2.7 billion



FINANCIAL SERVICES PERFORMANCE

Revenue increased by 21.6% to R581.5 million for the 12 months ended 31 December 2016, with second-half growth up 23.2%. EBITDA grew by 11.7% to R260.7 million, following good debtors' performance and investment in people, technology and compliance.

Full-year loan disbursements grew by 10.4%, with the second half growing by 13.1%, as customers adapted to and become more comfortable with the processes required for the affordability regulations and the business developed more user-friendly options for her. The Financial Services customer base grew 6.5% to 142 000. New customer acquisition reached 35 000 for 2016, 12% down on 2015. New loans contribution increased from 20.1% in the first half to 25.0% in the second half.

Revenue earned from insurance products has grown significantly during the year as the group moved to managing insurance through a cell captive business based in Mauritius. Credit life insurance was offered on all loan contracts from May and the new funeral insurance product was scaled during the second half with pleasing customer conversion. We see the opportunity for growth in insurance revenue to expand into 2017 and beyond.

The Financial Services business is primarily a digital business. 64% of all loan transactions were concluded by our customers via mobile phones. The KwikServe® USSD channel continues to be the primary engagement channel, with 76% of digital customers preferring to transact from this platform. Strong growth has been experienced from our mobi site, with registered customers increasing from 15% to 35% of the active loans base.

The digital team commenced adding self-service features to the mobi site to shift more customer engagement online. The account settlement quote feature was released in quarter four and has already shifted 30% of such service requests away from the call centre.

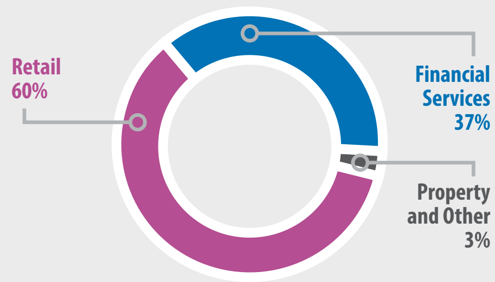
The business opened its first retail presence in the Retail showroom. Customers are able to open loan accounts and be serviced face to face or engage digitally via a self-service kiosk. Early results are encouraging and we expect to acquire incremental customers through this channel.

The Financial Services business in Mauritius commenced operations during the year. Systems, products and processes were established to conduct a successful pilot of loan disbursements to South African customers during the second half of the year. The Mauritius business expects to scale these operations further in 2017 to include Botswana and Namibia.

EBITDA CONTRIBUTION

+11%

to R701 million



Commentary (continued)

Credit risk management

The group has continued to adapt and manage the credit-granting criteria in line with the economic conditions and the constrained unsecured lending environment.

Credit performance for the period is summarised below:

		31 Dec 2016	31 Dec 2015	% change
Group				
Gross trade and loans receivable	(Rm)	**2 654.6**	2 156.2	23.1
Debtor costs as a % of revenue	(%)	**17.9**	17.8	
Non-performing loans (NPLs) (>120 days)	(%)	**7.0**	7.3	
NPL cover	(times)	**2.5**	2.4	
Retail				
Gross trade receivable	(Rm)	**1 507.3**	1 208.6	24.7
Debtor costs as a % of revenue	(%)	**15.1**	14.5	
Provision for impairment as a % of gross receivables	(%)	**18.9**	18.7	
Non-performing loans (>120 days)	(%)	**8.7**	9.5	
NPL cover	(times)	**2.2**	2.0	
Financial Services				
Gross loans receivable	(Rm)	**1 147.3**	947.6	21.1
Debtor costs as a % of revenue	(%)	**28.0**	29.9	
Provision for impairment as a % of gross receivables	(%)	**15.5**	16.6	
Non-performing loans (>120 days)	(%)	**4.7**	4.6	
NPL cover	(times)	**3.3**	3.6	

Group debtor costs have grown marginally above revenue growth, mainly driven by the acquisition of new Retail customers and disappointing late-stage collections performance. The use of television to drive customer acquisition negatively impacted debtor costs in the first half in Retail. However the tightening of credit criteria and changes in credit processes for that channel has seen improved metrics in the second half. The Retail provision has marginally increased from 18.7% to 18.9% at December 2016.

Financial Services debtor costs have reduced from 29.9% in 2015 to 28.0% in 2016. As the business gains more knowledge on the debt review book in Financial Services, there has been a reduction in the conservative provisions previously held on the book. As a result the impairment provision has reduced to 15.5% at December 2016 (2015: 16.6%).

Cash and cash management

Cash and cash equivalents was R187.3 million at year-end.

The group secured term loan financing of R350 million which will create sustainable long-term funding for the group. All the term loan funds were drawn down prior to 31 December 2016. The group has repaid the listed bond of R100 million in October 2016 and will repay the shareholder loan of R160 million during 2017.

Cash generated from operations at R277.0 million was 22.7% down on 2015. The generation of cash was negatively impacted by the strong growth in the last quarter in both Retail sales and Financial Services loan disbursements. This growth required additional working capital funding while the revenue benefit will only accrue in 2017.

Capital management

Capital expenditure at R46.3 million reflects more normalised levels of expenditure following a five-year programme of significant infrastructure investments. More than half of the capital expenditure for 2016 was focused on investments in the group technology systems and this is expected to follow a similar pattern for the next three years.

The net debt to equity ratio has increased from 26.2% at December 2015 to 28.7%, comfortably below the board's upper limit of 40.0%.

Outlook

The trading environment is expected to remain difficult and the unsecured credit markets constrained.

The group's credit strategy remains unchanged with the focus on driving improvements in cash collections while maintaining current lending criteria. The group will look to mitigate the impact of the annualisation of reduced interest rates by growing other streams of income, including developing the insurance business and driving cost-efficiencies. Customers continue to respond well to the innovative merchandise ranges and the new credit facility offer.

The Retail and Financial Services businesses are focused on expanding their digital capabilities and driving customer engagement, particularly via the mobile phone. We will focus on growing the digital acquisition of new customers, origination of loans and our customer self-service options to empower our customers to manage more of their relationship with us online.

The above information has not been reviewed or reported on by the group's external auditors.

S Portelli	**G Lartigue**	**S Maltz**
Chairman	Chief executive officer	Chief executive officer (South Africa)

Qormi, Malta ,13 March 2017

Dividend declaration

Notice is hereby given that the board of directors have declared a final gross cash dividend of 87.0 cents (69.6000 cents net of dividend withholding tax) per ordinary share for the year ended 31 December 2016. The dividend has been declared from income reserves. HIL is registered in the Republic of Malta and the dividend is a foreign dividend. A dividend withholding tax of 20% will be applicable to all South African shareholders who are not exempt.

The issued share capital at the declaration date is 103 510 901 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 4 April 2017
Shares commence trading "ex" dividend	Wednesday, 5 April 2017
Record date	Friday, 7 April 2017
Payment date	Monday, 10 April 2017

Share certificates may not be dematerialised or rematerialised between Wednesday, 5 April 2017 and Friday, 7 April 2017, both days inclusive.

G Said
Company secretary

Qormi, Malta, 13 March 2017

Summarised group statement of financial position

	Notes	2016 R'000	% change	2015 R'000
Assets				
Non-current assets				
Property, plant and equipment		**425 926**	0.9	422 243
Intangible assets		**89 654**	(12.0)	101 928
Loans to employees		**–**		207
Investment in associates and other		**24 259**		13 248
Deferred taxation		**38 217**		25 708
		578 056	2.6	563 334
Current assets				
Inventories	2	**213 750**	25.4	170 391
Taxation receivable		**4 756**		4 271
Trade and other receivables	3	**2 214 754**	23.9	1 787 273
Trade receivables – Retail		**1 221 729**	24.4	982 061
Loans receivable – Financial Services		**969 544**	22.6	790 575
Other receivables		**23 481**	60.4	14 637
Cash and cash equivalents		**187 277**		88 300
		2 620 536	27.8	2 050 235
Total assets		**3 198 593**	22.4	2 613 569
Equity and liabilities				
Equity attributable to equity holders of the parent				
Stated and share capital		**1 035**		1 025
Share premium		**2 998 429**		2 987 580
Reorganisation reserve		**(2 960 639)**		(2 960 639)
		38 825		27 966
Treasury shares		**(2 666)**		(2 666)
Other reserves		**6 377**		4 502
Retained earnings		**1 987 648**		1 721 626
Total equity		**2 030 184**	15.9	1 751 428
Non-current liabilities				
Interest-bearing liabilities		**579 140**	>100.0	164 324
Deferred taxation		**134 844**		112 282
Other payables		**4 900**		5 070
		718 884	>100.0	281 676
Current liabilities				
Interest-bearing liabilities		**31 453**	(85.8)	221 102
Taxation payable		**11 801**		18
Trade and other payables		**214 464**	16.2	184 550
Provisions		**31 713**		12 357
Bank overdraft		**–**		1 780
Shareholder loan		**160 094**		160 658
		449 525	(22.6)	580 465
Total liabilities		**1 168 409**	35.5	862 141
Total equity and liabilities		**3 198 593**	22.4	2 613 569

Summarised group statement of comprehensive income

	Notes	2016 R'000	% change	2015 R'000
Revenue		**2 664 230**	19.3	2 232 967
Retail sales		**1 497 610**	25.1	1 197 131
Finance charges and initiation fees earned		**940 585**		893 722
Finance charges earned		**672 083**	3.1	652 083
Initiation fees earned		**268 502**	11.1	241 639
Fees from ancillary services		**226 035**	59.1	142 114
Cost of retail sales		**(759 288)**	28.7	(590 010)
Other operating costs		**(1 267 819)**		(1 064 382)
Debtor costs	6	**(478 114)**	20.3	(397 469)
Other trading expenses	6	**(789 705)**	18.4	(666 913)
Other net gains and losses		**7 505**		(1 873)
Other income		**3 532**		3 692
Operating profit		**648 160**	11.7	580 394
Interest received		**3 393**	0.5	3 375
Interest paid		**(64 854)**	97.7	(32 809)
Share of loss of associates		**(1 564)**		(1 137)
Profit before taxation		**585 135**	6.4	549 823
Taxation		**(160 281)**	3.2	(155 264)
Profit and total comprehensive income for the year		**424 854**	7.7	394 559
Earnings per share (cents)				
Basic	7	**414.8**	6.7	388.9
Diluted		**410.5**	7.4	382.1
Additional information				
Retail gross profit margin (%)		**49.3**		50.7

The Retail gross profit margin percentage has been calculated as Retail sales less cost of Retail sales, divided by Retail sales.

Summarised group statement of changes in equity

	Stated and share capital R'000	Share premium R'000	Treasury shares R'000	Reorgan-isation reserve R'000	Other reserves R'000	Retained earnings R'000	Equity attributable to owners of the parent R'000
Balance at 1 January 2015	1 018	2 982 202	(2 666)	(2 960 639)	3 030	1 555 381	1 578 326
Changes in equity							
Profit and total comprehensive income for the year	–	–	–	–	–	394 559	394 559
Shares issued for share option scheme	7	5 378	–	–	–	–	5 385
Dividends paid	–	–	–	–	–	(228 314)	(228 314)
Share option scheme	–	–	–	–	1 472	–	1 472
Total changes	7	5 378	–	–	1 472	166 245	173 102
Balance at 1 January 2016	**1 025**	**2 987 580**	**(2 666)**	**(2 960 639)**	**4 502**	**1 721 626**	**1 751 428**
Changes in equity							
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**424 854**	**424 854**
Shares issued for share option scheme	**10**	**10 849**	**–**	**–**	**–**	**–**	**10 859**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(158 832)**	**(158 832)**
Share option scheme	**–**	**–**	**–**	**–**	**1 875**	**–**	**1 875**
Total changes	**10**	**10 849**	**–**	**–**	**1 875**	**266 022**	**278 756**
Balance at 31 December 2016	**1 035**	**2 998 429**	**(2 666)**	**(2 960 639)**	**6 377**	**1 987 648**	**2 030 184**

Summarised group statement of cash flows

	Notes	2016 R'000	% change	2015 R'000
Cash flows from operating activities				
Operating cash flows before working capital changes		**698 784**	9.7	636 923
Movements in working capital		**(421 740)**	51.5	(278 434)
Cash generated from operations	8	**277 044**	(22.7)	358 489
Interest received		**3 286**		3 375
Interest paid		**(60 512)**		(31 483)
Taxation paid		**(140 574)**		(137 495)
Net cash inflow from operating activities		**79 244**	(58.9)	192 886
Cash flows from investing activities				
Purchase of property, plant and equipment		**(26 282)**		(140 434)
Proceeds on disposal of property, plant and equipment		**425**		377
Purchase of intangible assets		**(20 124)**		(46 819)
Loans repaid by employees		**207**		1 095
Investment in associates		**(6 753)**		(6 709)
Net cash outflow from investing activities		**(52 527)**	(72.7)	(192 490)
Cash flows from financing activities				
Proceeds from the issuance of shares		**10 860**		5 385
Proceeds from interest-bearing liabilities		**369 574**		279 464
Repayments of interest-bearing liabilities		**(140 371)**		(30 342)
Finance-raising costs paid		**(7 191)**		(2 641)
Dividends paid		**(158 832)**		(228 314)
Net cash inflow from financing activities		**74 040**	>100.0	23 552
Net increase in cash and cash equivalents and bank overdrafts		**100 757**		23 948
Cash, cash equivalents and bank overdrafts at the beginning of the year		**86 520**		62 572
Cash, cash equivalents and bank overdrafts at the end of the year		**187 277**	>100.0	86 520

Group segmental analysis

	2016						2015					
	Total R'000	Retail R'000	Financial Services R'000	Property R'000	Other R'000	Intragroup R'000	Total R'000	Retail R'000	Financial Services R'000	Property R'000	Other R'000	Intragroup R'000
Segmental revenue	2 716 561	2 082 731	581 499	52 331			2 264 042	1 754 999	477 968	31 075		
Retail sales	1 497 610	1 497 610	–				1 197 131	1 197 131				
Finance charges and initiation fees earned	940 585	491 716	448 869				893 722	492 296	401 426			
Fees from ancillary services	278 366	93 405	132 630	52 331			173 189	65 572	76 542	31 075		
Intersegment revenue	(52 331)	–	–	(52 331)			(31 075)			(31 075)		
Revenue from external customers	2 664 230	2 082 731	581 499	–	–	–	2 232 967	1 754 999	477 968	–	–	–
Total trading expenses (refer to note 6)	1 267 819	953 485	325 143	22 252	9 612	(42 673)	1 064 382	828 712	245 720	2 365	15 865	(28 280)
EBITDA	701 422	420 203	260 750	31 330	(10 742)	(119)	632 187	377 702	233 358	30 259	(12 032)	2 900
Depreciation and amortisation	(54 825)	(49 500)	(3 648)	(1 272)	(434)	29	(52 930)	(50 467)	(974)	(1 272)	(224)	7
Interest received	1 470	–	563	–	36 088	(35 181)	1 065	–	553	–	39 016	(38 504)
Interest paid	(31 584)	–	(31 702)	–	(34 300)	34 418	(14 907)	–	(32 034)	–	(20 105)	37 232
Segmental operating profit*	616 483	370 703	225 963	30 058	(9 388)	(853)	565 415	327 235	200 903	28 987	6 655	1 635
Interest received	1 923	1 889	–	34	–	–	2 310	2 255	–	55	–	–
Interest paid	(33 270)	(7 490)	–	(25 780)	–	–	(17 902)	(5 198)	–	(13 975)	–	1 271
Profit before taxation	585 135	365 102	225 963	4 312	(9 388)	(853)	549 823	324 292	200 903	15 067	6 655	2 906
Taxation	(160 281)	(97 460)	(54 104)	(4 203)	(4 514)	–	(155 264)	(90 762)	(55 478)	(4 218)	(4 806)	–
Profit after taxation	424 854	267 642	171 859	109	(13 902)	(853)	394 559	233 530	145 425	10 849	1 849	2 906
Segmental assets**	3 198 594	1 759 458	1 095 512	340 116	22 406	(18 898)	2 613 569	1 412 344	848 456	337 355	27 445	(12 031)
Segmental liabilities**	1 168 409	368 495	55 050	251 406	511 388	(17 930)	862 141	317 029	35 217	253 479	268 493	(12 077)
Operating cash flows before working capital changes	698 784	421 481	255 770	31 330	(9 178)	(619)	636 923	376 886	233 736	30 505	(7 104)	2 900
Movements in working capital	(421 740)	(265 056)	(161 359)	2 475	1 705	495	(278 434)	(100 351)	(169 147)	(1 012)	(4 894)	(3 030)
Cash generated/(utilised) by operations	277 044	156 425	94 411	33 805	(7 473)	(124)	358 489	276 535	64 589	29 493	(11 998)	(130)
Capital expenditure												
Property, plant and equipment	26 282	21 806	764	4 409	67	(764)	140 434	33 834	955	105 067	578	–
Intangible assets	20 124	15 039	285	–	4 920	(120)	46 819	44 505	13	–	2 423	(122)
Change in Retail sales (%)	25.1	25.1					10.6	10.6				
Change in EBITDA (%)	11.0	11.3	11.7	3.5	(10.7)		16.7	11.8	23.4	9.6	(7.0)	
Change in debtor costs (%)	20.3	23.9	14.0				20.5	15.2	31.1			
Change in other trading expenses (%)	18.4	11.2	57.9	>100.0	(39.4)		18.5	19.3	16.1	9.0	10.5	
Gross profit margin (%)	49.3	49.3					50.7	50.7				
Segmental results margin (%)	22.7	17.8	38.9	57.4			25.3	18.6	42.0	93.3		

* *Refer to note 9 for further details on segments and segmental results.*
** *Excluding group loans, including loans to share trust.*

Notes to the summarised group financial statements

1. Basis of presentation and accounting policies

The group annual financial statements for the year ended 31 December 2016 and these summarised consolidated financial statements have been prepared by the group's finance department, acting under the supervision of P Burnett, CA(SA), finance director of the group.

The summarised consolidated financial statements are prepared in accordance with the requirements of the JSE Limited (JSE) for summarised financial statements. The JSE requires summarised financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by *IAS 34, Interim Financial Reporting*. The accounting policies applied in the preparation of the group annual financial statements from which the summarised consolidated financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous group annual financial statements.

No new standards, amendments or interpretations to existing standards, relevant to the group's operations, became effective for the year ended 31 December 2016.

2. Inventories

	2016 R'000	2015 R'000
Merchandise for resale	**198 333**	129 362
Provision for inventory obsolescence	**(22 344)**	(11 456)
Goods in transit	**37 761**	52 485
	213 750	170 391

Inventory sold at less than cost during the current year amounted to R14.274 million (2015: R11.966 million).

3. Trade and other receivables

	2016 R'000	% change	2015 R'000
Trade receivables – Retail	**1 507 312**	24.7	1 208 631
Provision for impairment	**(285 583)**	26.0	(226 570)
	1 221 729	24.4	982 061
Loans receivable – Financial Services	**1 147 250**	21.1	947 586
Provision for impairment	**(177 706)**	13.2	(157 011)
	969 544	22.6	790 575
Other receivables	**23 481**	60.4	14 637
Total trade and other receivables	**2 214 754**	23.9	1 787 273
Trade and loan receivables	**2 654 562**	23.1	2 156 217
Provision for impairment	**(463 289)**	20.8	(383 581)
Other receivables	**23 481**	60.4	14 637

3. Trade and other receivables (continued)

		2016 R'000	% change	2015 R'000
Movements in the provision for impairment were as follows:				
Retail				
Opening balance		**(226 570)**	14.3	(198 179)
Movement in provision		**(59 013)**	>100.0	(28 391)
Debtor costs charged to profit and loss		**(315 052)**	23.9	(254 374)
Debts written off during the year, net of recoveries		**256 039**	13.3	225 983
Closing balance		**(285 583)**	26.0	(226 570)
Financial Services				
Opening balance		**(157 011)**	23.5	(127 103)
Movement in provision		**(20 695)**	(30.8)	(29 908)
Debtor costs charged to profit and loss		**(163 062)**	14.0	(143 095)
Debts written off during the year, net of recoveries		**142 367**	25.8	113 187
Closing balance		**(177 706)**	13.2	(157 011)
Retail				
Debtor costs as a % of revenue	(%)	**15.1**		14.5
Debtor costs as a % of gross receivables	(%)	**20.9**		21.0
Provision for impairment as a % of gross receivables	(%)	**18.9**		18.7
Financial Services				
Debtor costs as a % of revenue	(%)	**28.0**		29.9
Debtor costs as a % of gross receivables	(%)	**14.2**		15.1
Provision for impairment as a % of gross receivables	(%)	**15.5**		16.6
Group				
Debtor costs as a % of revenue	(%)	**17.9**		17.8
Debtor costs as a % of gross trade receivables	(%)	**18.0**		18.4
Provision for impairment as a % of gross receivables	(%)	**17.5**		17.8

* *Defined as accounts 120 days or more in arrears as a percentage of the trade and loan receivable book.*

4. Contingent liabilities

The group had no contingent liabilities at the current or prior reporting dates.

5. Events after the reporting date

No event material to the understanding of these summarised financial statements has occurred between the end of the financial year and the date of approval.

Notes to the summarised group financial statements

(continued)

6. Total trading expenses

	2016 R'000	% change	2015 R'000
Expenses by nature			
Debtor costs			
Trade receivables – Retail	**315 052**	23.9	254 374
Loans receivable – Financial Services	**163 062**	14.0	143 095
Total debtor costs	**478 114**	20.3	397 469
Amortisation of intangible assets	**32 498**	(6.0)	34 583
Depreciation of property, plant and equipment	**22 408**	22.1	18 347
Operating lease charges for immovable property	**1 304**	(37.6)	2 091
Total operating lease charges	**4 022**	(9.1)	4 424
Less: disclosed under cost of Retail sales	**(2 718)**	16.5	(2 333)
Marketing costs	**188 863**	4.4	180 855
Staff costs	**332 010**	25.7	264 115
Total staff costs	**365 889**	21.8	300 380
Less: disclosed under cost of Retail sales	**(21 651)**	20.6	(17 950)
Less: staff costs capitalised to intangibles	**(12 228)**	(33.2)	(18 315)
Other costs	**212 622**	27.4	166 922
Total other trading expenses	**789 705**	18.4	666 913
	1 267 819	19.1	1 064 382

7. Basic and headline earnings per share

The calculation of basic and headline earnings per share is based upon profit for the year attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue as follows:

	2016 R'000	2015 R'000
Profit for the year	**424 854**	394 559
Adjusted for the after-tax effect of:		
(Gain)/loss on disposal of property, plant and equipment and intangible assets	**(241)**	207
Impairment of property, plant and equipment	**59**	84
Headline earnings	**424 672**	394 850
Weighted average number of ordinary shares in issue ('000)	**102 419**	101 468
Earnings per share (cents)		
Basic	**414.8**	388.9
Headline	**414.6**	389.1
Basic – diluted	**410.5**	382.1
Headline – diluted	**410.3**	382.4

8. Reconciliation of cash generated from operations

	2016 R'000	% change	2015 R'000
Profit before taxation	**585 135**	6.4	549 823
Share of loss of associates	**1 564**	37.5	1 137
Profit from insurance cells	**(5 823)**	>100.0	–
(Gain)/loss on disposal of property, plant and equipment and intangible assets	**(335)**	>(100.0)	288
Impairment of property, plant and equipment	**81**	>100.0	–
Depreciation and amortisation	**54 825**	3.6	52 930
Share-based employee share expense	**1 875**	27.4	1 472
Interest paid	**61 435**	87.2	32 809
Interest received	**(3 393)**	0.5	(3 375)
Capitalised bond costs – amortised cost adjustment	**3 420**	86.0	1 839
Operating cash flows before working capital changes	**698 784**	9.7	636 923
Movements in working capital	**(421 740)**	51.5	(278 434)
Increase in inventories	**(43 359)**	>100.0	(4 028)
Increase in trade receivables – Retail	**(239 668)**	>100.0	(116 595)
Increase in loans receivable – Financial Services	**(178 969)**	6.0	(168 771)
(Increase)/decrease in other receivables	**(8 844)**	>(100.0)	2 866
Increase in trade and other payables	**29 744**	10.9	26 815
Increase/(decrease) in provisions	**19 356**	>(100.0)	(18 721)
	277 044	(22.7)	358 489

9. Group segmental analysis

The group's operating segments are identified as being Retail, Financial Services, Property and Other. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, being HomeChoice International PLC's executive directors. The group's reportable segments are unchanged from the previous reporting date.

Retail consists mainly of the group's HomeChoice and FoneChoice operations, whereas Financial Services represents the group's FinChoice operations. The group's property companies, which own commercial properties utilised mainly within the group, are included in the Property segment. The Other segment relates mainly to the holding company's stand-alone results, as well as those of its associates.

The chief operating decision-maker monitors the results of the business segments separately for the purposes of making decisions about resources to be allocated and of assessing performance. They assess the performance of Retail and Property segments based upon a measure of operating profit and Financial Services and Other segments based on a measure of operating profit after interest received and interest paid.

Notes to the summarised group financial statements

(continued)

10. Fair value of financial instruments

The carrying amounts reported in the statement of financial position approximate fair values. Discounted cash flow models are used for trade and loan receivables. The discount yields in these models use calculated rates that reflect the return a market participant would expect to receive on instruments with similar remaining maturities, cash flow patterns, credit risk, collateral and interest rates.

11. Commitments

Leases are contracted for periods not exceeding five years and contain escalation clauses of between 8% and 9% and renewal options. The lease expenditure charged to profit and loss during the year is disclosed in note 6.

At 31 December the future minimum operating lease commitments amounted to the following:

	2016 R'000	2015 R'000
Properties		
Payable within one year	**3 506**	2 453
Payable between two and five years	**18 031**	206
	21 537	2 659
Suspensive sale agreements		
Payable within one year	**15 243**	24 594
Payable between two and five years	**25 671**	28 023
	40 914	52 617
Future finance charges on suspensive sale agreements	**(5 125)**	(5 409)
	35 789	47 208
The present value of suspensive sale agreement payments is as follows:		
Payable within one year	**12 719**	21 957
Payable between two and five years	**23 070**	25 251
	35 789	47 208
Capital commitments for property, plant and equipment and intangible assets:		
Approved by the directors	**47 238**	50 568
Approved by the directors and contracted for	**–**	–
	47 238	50 568

12. Related party transactions and balances

Related party transactions similar to those disclosed in the group's annual financial statements for the year ended 31 December 2016 took place during the period and related party balances are existing at the reporting date. Related party transactions include key management personnel compensation and intragroup transactions which have been eliminated on consolidation.

The group entered into a loan agreement with GFM Limited in May 2015. The loan value is R160 million, it carries interest at the South African prime interest rate and had a term of one year. During the period the term was extended for another year and is repayable in 2017.

13. Audit opinion

This summarised report is extracted from audited information, but is not itself audited. The group annual financial statements were audited by PricewaterhouseCoopers, who expressed an unmodified opinion thereon. The audited group annual financial statements and the auditor's report thereon are available for inspection at the company's registered office. The directors take full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying group annual financial statements.

14 March 2017

Directorate

Non-executive directors
S Portelli* (Chairman), A Chorn*, R Garratt, E Gutierrez-Garcia, R Hain*, C Rapa*
* Independent

Executive directors
G Lartigue (Chief Executive Officer), P Burnett, S Maltz

Administration

Country of incorporation
Republic of Malta

Date of incorporation
22 July 2014

Company registration number
C66099

Registered office
93 Mill Street
Qormi
QRM3012
Republic of Malta

Company secretary
George Said

Auditors
PricewaterhouseCoopers
Republic of Malta

Corporate bank
Deutsche Bank International Limited
Channel Islands

JSE listing details
Share code: HIL
ISIN: MT0000850108

Sponsor
Rand Merchant Bank, a division of
FirstRand Bank Limited

Transfer secretaries
Computershare Investor Services
Proprietary Limited

HiL PLC